

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 CU-04 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20

NSC-07 SS-20 STR-08 CEA-02 L-03 H-03 PA-04 USIA-15

PRS-01 DRC-01 /204 W

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R 290744Z MAY 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 931

INFO USLO PEKING

AMEMBASSY TOKYO

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY BERN

AMEMBASSY THE HAGUE

C O N F I D E N T I A L HONG KONG 6018

DEPARTMENT PASS TREASURY

E.O. 11652: GDS

TAGS: EFIN, CH

SUBJECT: BANK CREDIT LINES TO FINANCE PRC IMPORTS

REF HK A-96

SUMMARY: A NEW ESTIMATE OF FOREIGN BANK LINES OF CREDIT TO THE PRC HAS BECOME AVAILABLE WHICH SUGGESTS IT WILL BE AN IMPORTANT ELEMENT IN FINANCING THE BALANCE OF PAYMENTS DEFICIT IN 1974.
END SUMMARY.

1. IN REFAIR (PAR. 38-44), IT WAS POINTED OUT THAT CHINA HAS BEEN MAKING INCREASING USE OF RELATIVELY SHORT-TERM CREDIT (1-18 MONTHS)
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TO FINANCE ITS CURRENT DEFICIT. ON THE OTHER HAND, BETTER KNOWN

"DEFERRED PAYMENTS" (FIVE YEAR SUPPLIERS CREDITS) HAVE PROBABLY NOT YET BEEN DRAWN TO ANY EXTENT.

2. SHORT-TERM CREDIT CATEGORY CONSISTS OF SEVERAL SUBDIVISIONS:

- (A) OFFICIAL CANADIAN AND AUSTRALIAN WHEAT CREDITS;
- (B) SYNDICATED BANK LOANS FROM THE US IN CONNECTION WITH AGRICULTURAL EXPORTS;
- (C) EURO CURRENCY FINANCING; AND
- (D) UTILIZATION OF REVOLVING BANK LINES OF CREDIT TO PAY IMPORT L/CS.

3. BANK CREDIT LINES ARE PROBABLY DRAWN FOR SHORT PERIODS OF TIME TO PAY L/CS AS THEY FALL DUE. HOWEVER, BY INCREASING AVERAGE AMOUNTS OUTSTANDING OVER THE COURSE OF A YEAR, THESE LINES CAN FUNCTION AS METHOD OF FINANCING BALANCE OF PAYMENTS. RECENTLY AN AMERICAN BANKER WHO HAS BEEN STUDYING THIS SUBJECT COMPARED NOTES WITH FOREIGN COLLEAGUE AT THE CANTON FAIR. THE MEN HAD ARRIVED AT THEIR ESTIMATES INDEPENDENTLY, BUT THEIR METHODOLOGIES WERE SIMILAR AND THEIR SUB-ESTIMATES BY COUNTRY AND BANK WERE IN VERY CLOSE AGREEMENT, ACCORDING TO OUR SOURCE.

LINE OF CREDIT (ESTIMATED)	(US\$ MILLIONS)
UK	400
FRANCE	300
FRG	300
NETHERLANDS	150
SWITZERLAND	LESS THAN 300
JAPAN	500
AUSTRALIA AND NEW ZEALAND	100
CANADA	FAIRLY LARGE
TOTAL	WELL OVER 2,000

THESE ARE SUPPOSED TO BE LINES BETWEEN THE BANKS AND THE COUNTRIES LISTED AND THE BANK OF CHINA AND MAY INCLUDE OTHER THAN NATIONAL CURRENCIES. THEY ARE NOT RELATED IN ADVANCE TO SPECIFIC COUNTRY EXPORTS TO THE PRC.

4. COMMENT: THIS TECHNIQUE OF FINANCING IS CLEARLY FAR MORE IMPORTANT THAN HITHERTO SUSPECTED BUT CONSIDERING THIS IS ONLY ONE OF SEVERAL SOURCES OF CREDIT, THE AMOUNTS SUGGESTED HERE ARE CONFIDENTIAL

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EXTRA-ORDINARILY HIGH. EXCEPT FOR RELATIONSHIPS WITH SEVERAL UK BANKS WHICH ARE KNOWN TO BE CLOSE AND OF LONG STANDING, IT IS DOUBTFUL WHETHER BANKS IN OTHER COUNTRIES WOULD BE PREPARED TO EXTEND FACILITIES ON SUCH A SCALE. THIS RELUCTANCE IS PROBABLY REINFORCED BY THE PRC PRACTICE OF KEEPING A LARGE PART OF ITS RESERVES IN GOLD RATHER IN FOREIGN CURRENCY DEPOSITS WHICH ARE OFTEN THE INCENTIVE TO OPEN LINES OF CREDIT. IN PARTICULAR, THE FRENCH, GERMAN AND JAPANESE BANKS LOOK OUT OF LINE WITH THE

TRADE BETWEEN THESE COUNTRIES AND CHINA FOR ITEMS OTHER THAN WHOLE PLANTS AND ITEMS OF EQUIPMENT THAT WOULD BE FINANCED BY SUPPLIER CREDITS.

5. OUR GUESSTIMATE IS THAT THE RANGE MAY BE CLOSER TO \$1.0-\$1.5 BILLION WITH \$300-\$400 MILLION UTILIZED DURING 1973. THE ARRANGEMENTS GIVE THE PRC GREAT FLEXIBILITY BUT AT A FAR HIGHER INTEREST COST THAN WOULD BE AVAILABLE THROUGH EXPORT CREDIT FACILITIES. THEY WILL PROBABLY FORM AN IMPORTANT ELEMENT IN THE FINANCE OF THE 1974 BALANCE OF PAYMENTS DEFICIT.
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